

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Tustin Area Fire District</b>	County <b>Osceola</b>
Audit Date <b>3/31/06</b>	Opinion Date <b>6/20/06</b>	Date Accountant Report Submitted to State: <b>7/27/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

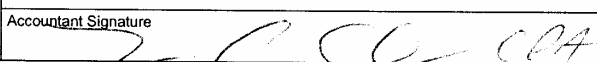
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Baird, Cotter and Bishop, P.C.</b>			
Street Address <b>134 W. Harris Street</b>		City <b>Cadillac</b>	State <b>MI</b>
		ZIP <b>49601</b>	
Accountant Signature 		Date <b>7/27/06</b>	

**TUSTIN AREA FIRE DISTRICT**

**TUSTIN, MICHIGAN**

**MARCH 31, 2006**

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

MARCH 31, 2006

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**CERTIFIED PUBLIC ACCOUNTANTS**

June 20, 2006

### INDEPENDENT AUDITORS' REPORT

To the Fire Board  
Tustin Area Fire District  
Lake and Osceola Counties  
Tustin, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Tustin Area Fire District, Lake and Osceola Counties, Tustin, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Fire District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Fire District's Management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Tustin Area Fire District, Lake and Osceola Counties, Tustin, Michigan, as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Fire District has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of April 1, 2004.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 16 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tustin Area Fire District, Lake and Osceola Counties, Tustin, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Tustin Area Fire District is a joint venture volunteer fire district supported by the Townships of Burdell, Dover and Sherman that has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Tustin Area Fire District board's discussion and analysis of the financial results for the fiscal year ended March 31, 2006.

**Financial Highlights**

- ◆ The assets of the Fire District exceeded its liabilities at the close of the fiscal year by \$651,250. Of this amount, \$305,837 may be used to meet the Fire District's ongoing obligations to citizens and creditors.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$301,813.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Fire District's basic financial statements. The Fire District's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2006 for Tustin Area Fire District. The *government-wide financial statements* are designed to provide readers with a broad overview of the Fire District's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Fire District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Fire District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire District is improving or deteriorating.

The *Statement of Activities* presents information showing how the Fire District's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Fire District that are principally supported by intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type

TUSTIN AREA FIRE DISTRICT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

activities). The governmental activities of the Fire District include public safety. The fire district supports no business-type activities.

### **Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. All of the funds of the Fire District are governmental funds.

***Governmental Funds*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **Other Information**

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

### **Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Fire District's financial position over time. The Net Assets of the Fire District are \$651,250 at March 31, 2006, meaning the Fire District's assets were greater than its liabilities by this amount.

TUSTIN AREA FIRE DISTRICT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

**Tustin Area Fire District**  
**Net Assets as of March 31, 2006**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Current Assets	\$ 306,385
Non Current Assets	
Capital Assets	692,446
Less: Accumulated Depreciation	<u>347,033</u>
Total Non Current Assets	<u>345,413</u>
<b>Total Assets</b>	<b><u><u>\$ 651,798</u></u></b>
<b>Liabilities</b>	
Current Liabilities	<u>\$ 548</u>
<b>Net Assets</b>	
Invested in Capital Assets	345,413
Unrestricted	<u>305,837</u>
<b>Total Net Assets</b>	<b><u><u>651,250</u></u></b>
<b>Total Liabilities and Net Assets</b>	<b><u><u>\$ 651,798</u></u></b>

The most significant portions of the Fire District's Net Assets are cash and investment in capital assets (e.g. land, buildings and equipment), less any related debt that is outstanding that the Fire District used to acquire or construct the asset.

At the end of the current fiscal year, the Fire District is able to report positive balance in net assets for the government as a whole.

The following table illustrates and summarizes the results of the changes in the net assets for the Fire District. The condensed information was derived from the government-wide Statement of Activities.



TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

**Tustin Area Fire District**  
**Change in Net Assets**  
**for the Fiscal Year Ended March 31, 2006**

	<b>Governmental Activities</b>
<b><u>Revenues</u></b>	
<b>Capital Grants and Contributions</b>	\$ 36,169
<b>General Revenues</b>	
Contributions from Local Units	127,217
Interest Earnings	672
Other	<u>171</u>
<b>Total Revenues</b>	<u>164,229</u>
<b><u>Expenses</u></b>	
Public Safety	<u>116,492</u>
Change in Net Assets	47,737
NET ASSETS - Beginning of Year	<u>603,513</u>
NET ASSETS - End of Year	<u><u>\$ 651,250</u></u>

**Governmental Activities**

During the fiscal year ended March 31, 2006, the Fire District's net assets increased by \$47,737 or 8% in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Fire District to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of Tustin Area Fire District comes from the Townships of Burdell, Dover and Sherman. Each unit contributes an amount based on taxable value in each unit to support the Fire District. Each township levied 2.00 mills for fire protection. This revenue is shown as contributions from local units.

The Fire District's governmental activities expenses are dominated by public safety expenses that total 100% of total expenses. The Fire District spent \$116,492 in fiscal year 2006 on public safety expenses. Expenses

TUSTIN AREA FIRE DISTRICT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

for insurance represent a large portion of the public safety expenses at \$16,238. Depreciation expense added another \$58,038.

**Financial Analysis of the Government's Funds**

***Governmental Activities*** The focus of Tustin Area Fire District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Fire District's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**General Fund** – At the end of the current fiscal year, Tustin Area Fire District's general fund reported an ending fund balance of \$305,837. Of the General Fund's fund balance, \$4,024 is reserved for prepaid expenditures and \$301,813 is unreserved. The fund balance of the Fire District's general fund increased by \$83,375 during the current fiscal year.

**General Fund Budgetary Highlights**

During the year, individual expenditure lines were amended to agree with actual expenditures. In total, Public Safety expenditures did not change.

**Capital Assets and Debt Administration**

**Capital Assets.** The Fire District's investment in capital assets for governmental activities as of March 31, 2006 amounted to \$345,413 net of accumulated depreciation. The total net decrease in the Fire District's investment in capital assets for the current fiscal year was 9%.

Capital assets summarized below include any items purchased with a cost greater than \$500 individually and have a useful life greater than one year. A summary of capital asset categories is illustrated below:

TUSTIN AREA FIRE DISTRICT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

*Tustin Area Fire District*  
*Capital Assets as of March 31, 2006*

	<b>Governmental Activities</b>
Land Improvements	\$ 3,480
Buildings	111,914
Building Improvements	8,022
Equipment	569,030
	<hr/> 692,446
Less Accumulated Depreciation	<hr/> 347,033
<b>Net Capital Assets</b>	<hr/> <b>\$ 345,413</b> <hr/>

Major capital asset events during the current fiscal year included the following:

- Purchasing various equipment at a cost of \$22,400.

**Long-Term Debt.** As of March 31, 2006, the Fire District was not obligated for any long-term debt..

**Economic Condition and Outlook**

The Fire District is expected to be supported by the Townships in the future.

The mills to be levied for the 2006 tax roll for fire protection are expected to be similar to 2005.

These factors were considered in preparing the Fire District's budgets for the 2006-07 fiscal year.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Fire District's finances and to demonstrate the Fire District's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Tustin Area Fire District at 16724 22 Mile Road, Tustin, Michigan 49688.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN  
STATEMENT OF NET ASSETS  
MARCH 31, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 302,361
Prepaid Expenditures	4,024
Total Current Assets	<u>306,385</u>
<u>CAPITAL ASSETS</u>	
Land Improvements	3,480
Buildings	111,914
Building Improvements	8,022
Equipment	569,030
	<u>692,446</u>
Less Accumulated Depreciation	<u>347,033</u>
Total Capital Assets	<u>345,413</u>
TOTAL ASSETS	<u><u>\$ 651,798</u></u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	<u>\$ 548</u>
<u>NET ASSETS</u>	
Invested in Capital Assets	345,413
Unrestricted	<u>305,837</u>
TOTAL NET ASSETS	<u>651,250</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 651,798</u></u>

The accompanying notes are an integral part of the financial statements.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			TOTALS	NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS		
<u>PRIMARY GOVERNMENT</u>						
<u>GOVERNMENTAL ACTIVITIES</u>						
Public Safety	\$ 116,492	\$ 0	\$ 0	\$ 36,169	\$ (80,323)	
<u>GENERAL REVENUES</u>						
						127,217
Contributions from Local Units						
Interest Earnings						672
Other						171
Total General Revenues						128,060
Change in Net Assets						47,737
<u>NET ASSETS</u> - Beginning of Year						603,513
<u>NET ASSETS</u> - End of Year						\$ 651,250

The accompanying notes are an integral part of the financial statements.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

GOVERNMENTAL FUND

BALANCE SHEET  
MARCH 31, 2006

	<u>GENERAL FUND</u>
 <u>ASSETS</u>	
Cash	\$ 302,361
Prepaid Expenditures	<u>4,024</u>
 TOTAL ASSETS	 <u><u>\$ 306,385</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Accounts Payable	<u>\$ 548</u>
 <u>FUND BALANCE</u>	
Reserved	
Prepaid Expenditures	4,024
Unreserved	
Undesignated	<u>301,813</u>
Total Fund Balance	<u><u>305,837</u></u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 306,385</u></u>

The accompanying notes are an integral part of the financial statements.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2006

Total Fund Balance for Governmental Funds	\$ 305,837
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Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Land Improvements	\$	3,480	
Buildings		111,914	
Building Improvements		8,022	
Equipment		569,030	
Accumulated Depreciation		(347,033)	345,413

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 651,250
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The accompanying notes are an integral part of the financial statements.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2006

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Federal Sources	
FEMA Grant	\$      36,169
Contributions from Local Units	127,217
Interest and Rents	672
Other Revenues	<u>171</u>
Total Revenues	<u>164,229</u>
<u>EXPENDITURES</u>	
Public Safety	<u>80,854</u>
Net Change in Fund Balance	83,375
<u>FUND BALANCE</u> - Beginning of Year	<u>222,462</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$      305,837</u></u>

The accompanying notes are an integral part of the financial statements.



TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2006

Net change in Fund Balances Total Governmental Funds	\$ 83,375
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(58,038)
Capital Outlay	<u>22,400</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 47,737</u>
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The accompanying notes are an integral part of the financial statements.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Tustin Area Fire District is a joint venture volunteer fire department supported by the Townships of Burdell, Dover and Sherman. Under the criteria established by accounting principles generally accepted in the United States of America, the Fire District has determined that there are no component units which should be included in its reporting entity.

**B. Government-wide and Fund Financial Statements**

During fiscal year 2005, the Fire District adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Contributions from local units and other items not properly included among program revenues are reported instead as general revenues.

TUSTIN AREA FIRE DISTRICT  
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NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

The government-wide focus is more on the sustainability of the Fire District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

Contributions from local units and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Fire District are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Tustin Area Fire District reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the Fire District's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The Fire District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

State statutes authorize the Fire District to invest funds as follows:

- a. In bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States. This subdivision shall include securities issued or guaranteed by the government national mortgage association;
- b. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union meeting all criteria as a depository of public funds contained in state law;
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. In the United States government or federal agency obligation repurchase agreements;
- e. In bankers' acceptances of United States banks;

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

- f. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.
- g. In obligations permitted by PA 20 of 1943, as amended by PA 196, if purchased through an interlocal agreement under the Urban Cooperation Act of 1967;
- h. In investment pools organized under the Surplus Funds Investment Pool Act, PA 367 of 1982 or
- i. In investment pools organized under the Local Government Investment Pool Act, PA 121 of 1985.

**2. *Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles. Fire District revenues are recognized when they become both measurable and available for use to finance Fire District operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

For the 2005 – 2006 fiscal year, the Tustin Area Fire District received as aid \$58,023 from Burdell Township, \$18,675 from Dover Township and \$50,519 from Sherman Township. In addition, the Fire District received \$36,169 in a capital grant.

**3. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**4. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building Improvements	20
Land improvements	20
Vehicles	5-10
Equipment	5-10

**5. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

**6. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**7. Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The annual budget is adopted on the modified cash basis based on the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act." A public hearing is held to obtain public comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on January 19, 2005, or as amended by the Fire District Board from time to time throughout the year.

The appropriated budget is prepared by activity. The Fire District Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Fire District because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The District's deposits are all on deposit with Lake Osceola State Bank in Baldwin, Michigan.

*Investment rate risk.* The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

*Foreign currency risk.* The District is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

*Concentration of credit risk.* The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2006, \$202,518 of the government's bank balance of \$302,518 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end, the District held no investments.

**B. Receivables**

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded at the end of the current fiscal year.



TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**C. Capital Assets**

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets				
Land Improvements	\$ 3,480	\$ 0	\$ 0	\$ 3,480
Buildings	111,914	0	0	111,914
Building Improvements	8,022	0	0	8,022
Equipment	546,630	22,400	0	569,030
Total capital assets, being depreciated	670,046	22,400	0	692,446
Less accumulated depreciation for:				
Land Improvements	507	174	0	681
Buildings	26,901	2,238	0	29,139
Building Improvements	4,938	401	0	5,339
Equipment	256,649	55,225	0	311,874
Total accumulated depreciation	288,995	58,038	0	347,033
Governmental activities capital assets, net	\$381,051	\$(35,638)	\$ 0	\$345,413

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Public Safety \$ 58,038

Construction Commitments:

The district has no outstanding construction commitments as of March 31, 2006.

**D. Long-Term Debt**

At March 31, 2006, the District was not obligated for any long-term debt.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**IV. OTHER INFORMATION**

**A. Property Taxes**

Each Township which is a member of the Fire District levies property tax millage to support the Fire District. The property tax collections and taxes receivable are recognized by the individual township and remitted to the Fire District periodically. The Fire District recognizes the funds received from the townships as contributions from local units.

**B. Risk Management**

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters, and worker's compensation claims. The government carries commercial insurance to guard against loss from these risks.

TUSTIN AREA FIRE DISTRICT  
TUSTIN, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

YEAR ENDED MARCH 31, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Contributions from Local Units	\$ 122,356	\$ 122,356	\$ 127,217
Federal Grants	52,745	52,745	36,169
Interest and Rents	0	0	672
Other Revenues	0	0	171
Total Revenues	175,101	175,101	164,229
<u>EXPENDITURES</u>			
Public Safety	116,625	116,625	80,854
Net Change in Fund Balance	58,476	58,476	83,375
<u>FUND BALANCE</u> - Beginning of Year	0	0	222,462
<u>FUND BALANCE</u> - End of Year	\$ 58,476	\$ 58,476	\$ 305,837

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

JOHN H. BISHOP, C.P.A.  
ROBERT V. BEATTIE, C.P.A.  
DOUGLAS P. McMULLEN, C.P.A.  
JOHN F. TAYLOR, C.P.A.  
STEVEN C. ARENDS, C.P.A.  
SCOTT A. HUNTER, C.P.A.  
JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

June 20, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Fire Board  
Tustin Area Fire District  
Lake and Osceola Counties  
Tustin, Michigan

As a result of our audit of the basic financial statements of Tustin Area Fire District for the year ended March 31, 2006, we would like to take this opportunity to comment on the following items relative to the management and accounting records and procedures of the District:

Condition of Accounting Records

The computerized records did not include all expenditures and thus did not reconcile with the bank statements. The hand ledger records were complete but the individual expense accounts were not totaled for the whole year.

Recordkeeping

The original operating agreement for the Fire District provided for the recordkeeping responsibility to be rotated every two years between the three township treasurers. Over the years, this practice has caused confusion and inconsistency. We recommend the fire district consider making the treasurers position a paid permanent position rather than continuing to rotate between the townships.

GASB 34

These financial statements are reported under the new GASB 34 accounting standard and are much different than in the past.

Some of the more significant changes required by GASB 34 are as follows:

1. Management's discussion and analysis is a new section in the financial report. This includes the administration's narrative overview of the information contained in the financial statements.
2. Several new types of financial statements are now included that reports financial information on a Fire District-wide basis and incorporates capital assets, a provision for depreciation on those assets as well as long-term liabilities of the Fire District.

### Budgeting Procedures

Pertaining to the Fire District's compliance with Public Act 621 of 1978, the following are noted:

1. The budget document should have the actual results from the prior year.

We recommend the Fire District carefully review these statements under the new accounting standard. We are available to explain the various changes in detail if so desired.

We would like to thank the board for its continued confidence in our firm and to thank the Fire District officers for their cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

M. WAYNE BEATTIE, C.P.A.  
1902 - 1990

JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.  
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*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

June 20, 2006

LETTER OF REPORTABLE CONDITIONS

To the Fire Board  
Tustin Area Fire District  
Lake and Osceola Counties  
Tustin, Michigan

In planning and performing our audit of the financial statements of Tustin Area Fire District, Tustin, Michigan for the year ended March 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the Fire District make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*